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BY ELECTRONIC FILING

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: Federal-State Joint Board on Universal Service -- CC Docket No. 96-45

Dear Ms. Dortch:

Alaska Communications,[1] by its undersigned counsel, writes in response to the recent FCC Public Notice released by the Office of Managing Director ("OMD") proposing a universal service contribution factor of 17.1 percent for the third quarter 2017.[2] The Commission must provide 14 days' notice in advance of the next quarter's contribution factor; if the Commission takes no action, the factor proposed in the OMD Public Notice will take effect automatically.[3]

For the reasons explained below, the OMD Public Notice reflects a policy direction that is harmful to the public interest. Alaska Communications urges the Commission to include the full $100 million quarterly demand for the Rural Health Care ("RHC") support mechanism in the amount to be collected in the coming calendar quarter. OMD's recommended approach – which would fund this demand entirely from previous collections – has the effect of reducing the total program collection requirement by $100 million. Alaska Communications believes that, without this "adjustment," the correct contribution factor would be only marginally higher, about 17.9 percent for the third quarter 2017.

The OMD Public Notice states, "The Commission calculates the quarterly contribution factor based on the ratio of projected quarterly costs of the universal service support mechanisms to contributors' total projected collected end-user interstate and international telecommunications

[1] As used herein, "Alaska Communications" signifies the following subsidiaries of Alaska Communications Systems Group, Inc.: ACS of Alaska, LLC, ACS of Anchorage, LLC, ACS of Fairbanks, LLC, ACS of the Northland, LLC, ACS Long Distance, LLC and ACS Internet, LLC.
[2] *Proposed Third Quarter 2017 Universal Service Contribution Factor*, Public Notice, CC Docket No. 96-45, DA 17-580 (Office of Managing Director rel. June 13, 2017) (the "OMD Public Notice").
[3] 47 C.F.R. §54.709(a)(3).

revenues, net of projected contributions."[4] However the OMD Public Notice goes on to project the total program collection requirements *net of any collections for the Rural Health Care ("RHC") program*.[5] OMD shows the projected support requirements for each of the four programs, but then shows an unexplained "adjustment" of the full $100 million of RHC demand.[6]

While this "adjustment" is based on previous USAC demand projections, a review of the underlying USAC filings provides virtually no justification for the abrupt shift between May 23, 2017, when USAC reiterated its May 2, 2017 analysis setting forth a "total projected 3Q2017 funding requirement for the Rural Health Care Support Mechanism of $99.62 million,"[7] and June 2, 2017, when USAC suddenly concluded that the rural health care support mechanism is in "an over-funded condition"[8] and "revised the demand projection for the Rural Health Care Support Mechanism[,] causing a reduction from $99.62M to $-1.23M, a difference of $100.85M."[9]

First, USAC's decision to project RHC demand for the upcoming quarter after netting out purportedly excess collections from previous years violates the Wireline Competition Bureau's clear and explicit guidance *not* to do so. Specifically, in 2013, the Bureau directed that, "if actual collections exceed demand for any RHC Programs in a particular quarter, pursuant to section 54.709(b) of the Commission's rules, we instruct USAC not to take those excess collections into consideration when projecting demand for the following quarter. Thus, until the Bureau or OMD instructs USAC otherwise, all excess collections remaining from the RHC Program shall be available for the RHC Program in future quarters."[10]

Second, it is vital that the Commission examine OMD's recommendation and consider the impact on the RHC support mechanism. In light of such developments as the expansion of support through the Health Care Connect program, the addition of nursing facilities as eligible participants, the massive shift to Electronic Health Records, technological advances in tele-health capabilities, and improvements in the rural standard of care, the nearly twenty-year old budget cap of $400 million per year is grossly inadequate. As the Commission considers how best to fulfill the expanded mission of the Rural Health Care program, RHC reserve funds can be used to smooth the transition and to bridge the gap between the very real demand and limited funds. Many parties have urged the Commission to raise the budget for the RHC mechanism, for

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[4] *Id*. at 1, citing Section 54.709(a)(2) of the Commission's rules, 47 C.F.R. §54.709(a)(2).
[5] OMD Public Notice at 2.
[6] *Id*.
[7] Universal Service Administrative Company, "Federal Universal Service Support Mechanisms Fund Size Projections for Third Quarter 2017," CC Docket No. 02-60 (filed May 2, 2017), at 33.
[8] Universal Service Administrative Company, "Federal Universal Service Support Mechanisms Fund Size Projections for Third Quarter 2017," CC Docket No. 02-60 (filed June 2, 2017), at 32.
[9] *Id.* footnote 1.
[10] Public Notice, WC Docket No. 02-60, "The Wireline Competition Bureau and the Office of the Managing Director Provide Collection Instructions to USAC for the Healthcare Connect Fund," DA 13-952, 28 FCC Rcd 5697, p.3 (Wir. Comp. Bur. 2013).

example, and to avoid a 7.5 percent *pro rata* cut (valued at some $20 million) to RHC program beneficiaries for approved projects submitted between September and November 2016.

Rural consumers, a high proportion of whom are low-income consumers, are paying the price of this short-sighted policy lapse. A lower contribution factor is achieved at the expense of urgently-needed RHC projects that especially benefit low-income consumers who historically are "medically underserved."[11]

The Commission should not borrow from the RHC reserve for a lower contribution factor – a temporary gain of only cosmetic benefit to the national interest. Rather, the Commission should focus on the long-term needs of rural Americans and ensure that all support – including RHC support – is sufficient to meet the needs of the Nation.[12] In the appropriate proceeding, the FCC may adopt other reforms to address the contribution factor, but unceremoniously tapping into accumulated RHC reserves is not an appropriate method for that.

Third, while USAC stated that the *June 2 Fund Size Projection* was filed "in accordance with Section 54.709 of the [Commission's] rules,[13] that does not appear to be the case. The Commission's rules require USAC to file its demand projections for all four of the universal service support mechanisms (high-cost, low-income, RHC and E-rate) with the Commission at least 60 days before the start of each calendar quarter.[14] Its June 2 filing fails that requirement.

The Commission should not be looking to accumulated reserves for short-term reductions in contributions but instead should try to apply those reserves for the purpose for which they were collected, to maximize the availability of advanced telecommunications and information services to all Americans on an affordable basis.

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[11] *See* Letter from Colleen Meiman, Nat'l Ass'n of Community Health Centers, to FCC Chairman Pai *et al*., WC Docket No. 02-60, GN Docket No. 16-46 (filed May 22, 2017).
[12] *See* 47 U.S.C. §254(b).
[13] USAC, *June 2 Fund Size Projection* at 2.
[14] 47 C.F.R. § 54.709(a)(3).

Please direct any questions concerning this matter to me.

Respectfully submitted,

Karen Brinkmann
Counsel to Alaska Communications

cc: Jay Schwarz, Office of Chairman Pai
Amy Bender, Office of Commissioner O'Rielly
Claude Aiken, Office of Commissioner Clyburn
Kris Monteith, Chief, Wireline Competition Bureau
Mark Stephens, Managing Director
Ken Yee, Office of Managing Director